



INTERNAL AUDIT DIVISION

AUDIT REPORT 2013/031

Audit of fuel management in MINUSTAH

Overall results relating to the effective management of fuel in MINUSTAH were initially assessed as partially satisfactory. Implementation of five important recommendations remains in progress

**FINAL OVERALL RATING: PARTIALLY
SATISFACTORY**

25 March 2013

Assignment No. AP2012/683/04

CONTENTS

	<i>Page</i>
I. BACKGROUND	1
II. OBJECTIVE AND SCOPE	1-2
III. AUDIT RESULTS	2-7
A. Regulatory Framework	3-5
B. Oversight	5-7
IV. ACKNOWLEDGEMENT	7
 ANNEX I Status of audit recommendations	
 APPENDIX 1 Management response	

AUDIT REPORT

Audit of fuel management in MINUSTAH

I. BACKGROUND

1. The Office of Internal Oversight Services (OIOS) conducted an audit of fuel management in the United Nations Stabilization Mission in Haiti (MINUSTAH).
2. In accordance with its mandate, OIOS provides assurance and advice on the adequacy and effectiveness of the United Nations internal control system, the primary objectives of which are to ensure: (a) efficient and effective operations; (b) accurate financial and operational reporting; (c) safeguarding of assets; and (d) compliance with mandates, regulations, and rules.
3. The MINUSTAH Fuel Unit, in coordination with the Engineering, Transport and Aviation sections, is responsible for the management of fuel. From 1 January 2010 to 30 March 2012, MINUSTAH was responsible for procuring, storing, and distributing fuel. However, effective 30 March 2012, fuel was sourced and managed under a turnkey contract. The contract is for an initial period of three years, with a Not-To-Exceed (NTE) amount of \$120.6 million. The contractor is responsible for maintaining strategic and local reserves at a sufficient level to ensure uninterrupted operations. The ownership and title of fuel passes to MINUSTAH when the fuel is dispensed into MINUSTAH-designated equipment including vehicles, aircraft and generators. On a monthly basis, MINUSTAH pays the contractor the invoiced amount of the fuel dispensed, as well as a monthly fixed operational and maintenance fee of \$630,000.
4. The Fuel Unit is headed by a Chief at the P-3 level and assisted by 11 staff members. The budget for Petroleum, Oil and Lubricant (POL) for 2011/12 and 2012/13, respectively, is shown in Table 1 below.

Table 1: Fuel allotments for 2011/12 and 2012/13

Petroleum, Oil and Lubricant	2011/12	2012/13
Facilities and infrastructure	16,493,400	15,187,400
Ground transportation	8,349,900	7,243,600
Air transportation	3,682,400	3,086,500
Total	\$ 28,525,700	\$ 25,517,500

5. Comments provided by MINUSTAH are incorporated in italics.

II. OBJECTIVE AND SCOPE

6. The audit was conducted to assess the adequacy and effectiveness of the MINUSTAH governance, risk management and control processes in providing reasonable assurance regarding the **effective management of fuel in MINUSTAH**.
7. The audit was included in the OIOS 2012 risk-based work plan because of the criticality of timely and uninterrupted provision of fuel for the implementation of the MINUSTAH mandate.
8. The key controls tested for the audit were: (a) regulatory framework; and (b) oversight. For the purpose of this audit, OIOS defined these key controls as follows:

(a) **Regulatory framework** – controls that provide reasonable assurance that policies and procedures: (i) exist to guide the operations of fuel management; (ii) are implemented consistently; and (iii) ensure reliability and integrity of financial and operational information.

(b) **Oversight** – controls that provide for supervision and evaluation of fuel management activities to ensure that threats and opportunities are identified and appropriate response or action plans are drawn to minimize risks and take advantage of opportunities.

9. The key controls were assessed for the control objectives shown in Table 2.

10. OIOS conducted this audit from October 2012 to November 2012. The audit covered the period from 1 July 2011 to 30 September 2012.

11. OIOS conducted an activity-level risk assessment to identify and assess specific risk exposures, and to confirm the relevance of the selected key controls in mitigating associated risks. Through interviews, analytical reviews and tests of controls, OIOS assessed the existence and adequacy of internal controls and conducted necessary tests to determine their effectiveness.

III. AUDIT RESULTS

12. The MINUSTAH governance, risk management and control processes examined were assessed as **partially satisfactory** in providing reasonable assurance regarding effective management of fuel. OIOS made seven recommendations to address issues identified. Following the establishment of the turnkey fuel contract in April 2012, the contractor was effectively supplying fuel to all 15 fuel distribution points. Local and strategic fuel reserves were available in the quantities stipulated in the contract. However, mobilization of the contractor to two sites was delayed due to lack of available land to install equipment. With the establishment of the turnkey contract, there was redundant contingent-owned fuel and storage equipment. Management had initiated actions to: (a) reduce contingent fuel holdings; (b) implement controls over monitoring of fuel consumption; and (c) follow-up on the implementation of recommendations made during inspections of fuel dispensing sites.

13. The initial overall rating was based on the assessment of key controls presented in Table 2 below. The final overall rating is **partially satisfactory** as implementation of five important recommendations remains in progress.

Table 2: Assessment of key controls

Business objective	Key controls	Control objectives			
		Efficient and effective operations	Accurate financial and operational reporting	Safeguarding of assets	Compliance with mandates, regulations and rules
Effective management of fuel in MINUSTAH	(a) Regulatory framework	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
	(b) Oversight	Partially satisfactory	Partially satisfactory	Partially satisfactory	Partially satisfactory
FINAL OVERALL RATING: PARTIALLY SATISFACTORY					

A. Regulatory framework

The contractor had fully transitioned in all fuel distribution points

14. In accordance with the terms of the contract, the contractor had become operational, and was dispensing fuel to authorized vehicles and equipment in 10 distribution points, and supplying bulk fuel to five distribution points and over 20 generator locations. MINUSTAH had transferred its holdings of approximately 1 million liters of diesel, 10,000 liters of gasoline and 160,000 liters of Jet A-1, as well as fuel vehicles, tanks and bladders, fuel facilities and other equipment valued at over \$6 million. The transfer of equipment, facilities and POL to the contractor was satisfactorily completed within the established timeframe.

Mobilization of sites could be delayed due to lack of land

15. The contractor was required to construct permanent storage facilities in seven mobilization sites. However, in Port-au-Prince and Mirebalais, construction had not started due to the inability of MINUSTAH to provide land to the contractor. There were ongoing discussions between MINUSTAH and the Government to acquire additional land in the Port-au-Prince airport area. In Mirebalais, as the Government had no available land, MINUSTAH was awaiting approval from a landowner to construct storage facilities.

16. The contractor had expressed concern at various meetings over financial losses due to the Mission's failure to provide land as stipulated in the contract. These losses included the cost of equipment rental charges, and claims for breach of contract with the professionals and manufacturers it had engaged to implement the contract. Also, there was a concern over possible liquidated damages that may be imposed by the United Nations due to delays by the contractor in becoming fully mobilized. While MINUSTAH had assured the contractor that no liquidated damages would be levied, as MINUSTAH was responsible for these delays, there remained a risk that the contractor might raise a claim for loss of income if the land was not provided before the expiration of the proposed mobilization period. To mitigate this, MINUSTAH was in the process of finalizing a Note to File to be signed with the contractor agreeing not to present any claims for financial losses on the mobilization of fuel reserves as the delay could not be imputed to either party. As at 18 March 2013, the Note to File was with the Procurement Division for review, with the aim to finalize it in order to safeguard the United Nations against any claims.

(1) MINUSTAH should, in consultation with the Procurement Division, ensure that the United Nations is adequately safeguarded against possible claims due to the inability of MINUSTAH to provide land to the contractor as stipulated in the turnkey fuel contract.

MINUSTAH accepted recommendation 1 and stated that it had drafted a Note to File, and was waiting for the Procurement Division to clear it prior to finalizing it. Recommendation 1 remains open pending confirmation that adequate measures are in place to safeguard the United Nations against possible claims from its fuel contractor.

There were redundant COE fuel and storage equipment following the establishment of the turnkey contract

17. Since the contractor was responsible for managing the fuel supply chain, there were redundant contingent-owned fuel and storage equipment. Site visits to 13 contingent locations identified 57 fuel carrying and storage equipment, 23 fuel trucks and 16 fuel trailers that were not in use. According to the MINUSTAH records, the total contingent-owned fuel and storage equipment included 43 fuel trucks, 74 fuel trailers, and other fuel storage facilities located in 45 contingent locations. As this equipment was still

deployed in the Mission, the United Nations continued to pay troop contributing countries for equipment that was no longer required for operational purposes.

(2) MINUSTAH should: (1) conduct an assessment of contingent-owned fuel carrying equipment to identify surplus or redundant equipment following the establishment of the turnkey fuel contract; and (2) initiate action in coordination with the Departments of Peacekeeping Operations and Field Support to repatriate redundant equipment.

MINUSTAH accepted recommendation 2 and stated that an assessment to identify surplus or redundant fuel carrying contingent-owned equipment had been completed, and it was in the process of reviewing the Memorandum of Understanding and liaising with DPKO/DFS to repatriate redundant equipment. Recommendation 2 remains open pending receipt of evidence that action had been taken to repatriate redundant equipment.

Bulk fuel quantities delivered to contingents exceeded operational requirements

18. Prior to entering into the turnkey contract, contingents were maintaining a 30-day supply of fuel. However, although the turnkey fuel contractor was required to deliver fuel when needed, and was required to maintain sufficient, accessible quantities of local and strategic fuel reserves, OIOS' analysis showed that 30 of 45 contingent locations still maintained on average, 16 to 54 days' supply of fuel. Some of these contingents were located in close proximity to the contractor's distribution point. For example, in Port-au-Prince, 22 contingents were located near the contractor's fuel station, yet they held an average stock balance of over 400,000 litres (16 days of supply). As a result, the risk of loss and/or misappropriation of fuel were shifted from the contractor to the United Nations. There was a need for MINUSTAH to reduce contingents' fuel stocks to short-term operational requirements.

(3) MINUSTAH should reduce contingent fuel holdings to mitigate against the risk of loss to the Mission following the establishment of the turnkey fuel contract.

MINUSTAH accepted recommendation 3 and stated that contingent vehicles were now being refueled at the contractor's vehicle dispensing points. Only engineering equipment and generators continued to be refueled in the contingents' camps, where one week's reserves were held. Recommendation 3 remains open pending receipt of evidence that fuel stock levels held by contingents has been reduced to operational levels.

The correct level of local and strategic fuel reserves were maintained

19. The contract specified that the contractor should maintain local reserves of 1,525,500 liters of diesel in all 15 sites, 364,000 liters of Jet A-1 fuel in three sites, and 54,500 liters of petrol in five sites. Four locations were also chosen to maintain strategic fuel reserves of 1,315,000 liters of diesel, 360,000 liters of Jet A-1 and 50,000 liters of petrol. Site visits to five of the 15 distribution points confirmed that adequate local and strategic fuel reserves were maintained.

Fuel issue vouchers were accurately recorded in the fuel management system and properly authorized

20. The turnkey fuel contract required the contractor to prepare fuel issue vouchers and ensure that those individuals receiving fuel sign these vouchers as evidence of fuel dispensed in MINUSTAH-designated vehicles and equipment. The contractor used the mission electronic fuel accounting system (MEFAS) to record all fuel issuances, which included details such as who received the fuel, the equipment it was supplied to and the quantity of fuel dispensed. A daily summary for fuel issued sheet was generated and verified for accuracy by the Fuel Unit and the Aviation Section (for aviation fuel).

Monthly consumption totals were checked against the contractor's invoice by the Supply Section before they were forwarded to the Finance Section for payment.

21. OIOS selected 958 fuel issue vouchers to assess the completeness and accuracy of the data in MEFAS, and concluded that issuances were duly accounted for in the system and appropriately signed by the contractor and approved by MINUSTAH. There were also adequate controls over access to MEFAS.

Contractor invoices were adequately reviewed prior to payment in accordance with procedures

22. Invoices were paid within the 30 calendar-day grace period, and as a result, MINUSTAH was able to take advantage of early payment discounts of \$60,597 for payments totaling \$12.1 million for the period from 1 April 2012 to 30 September 2012. OIOS reviewed 45 payments to the turnkey contractor totaling \$6.1 million, and 16 invoices to the previous supplier totaling \$5.6 million. All payments were properly supported and made in accordance with the UN Financial Regulations and Rules.

Standard operating procedures were not updated

23. The fuel management standard operating procedures (SOPs) did not reflect the new organizational set-up and changes to work flow processes arising from the establishment of the fuel turnkey contract in April 2012. MINUSTAH advised that although they had initiated a review with the aim of updating the SOPs, they first required some time to fully understand the new process.

(4) MINUSTAH should ensure that standard operating procedures on fuel management are reviewed and updated to include the revised work flow process and procedures that are relevant to effectively managing a turnkey fuel contract.

MINUSTAH accepted recommendation 4 and stated that the revised SOPs for supply of fuel and lubricants had been drafted in March 2013 and was pending approval by the Director of Mission Support. Recommendation 4 remains open pending receipt of a copy of the approved revised SOPs to guide staff in managing fuel activities under the turnkey fuel contract.

The contractor's performance was evaluated and reported on a quarterly basis

24. The performance of the contractor was properly monitored and evaluated during monthly contractor performance meetings attended by members of the Supply Section, the Fuel Unit and the Contracts Management Section. The results of these meetings were consolidated into quarterly reports. A review of the minutes of the monthly meetings and the quarterly performance reports for the quarters ended June 2012 and September 2012 showed that adequate procedures were in place for monitoring the contractor's performance.

B. Oversight

There was a need to improve the monitoring of fuel consumption

25. The Aviation Section satisfactorily monitored the fuel consumed by the Mission's 10 aircraft, with the actual amounts regularly compared against manufacturers' fuel consumption rates. However, similar monitoring and analyses were not performed in respect of other fuel-consuming assets. OIOS selected 50 vehicles and 30 generators to assess whether fuel consumption rates of these assets were within established norms. However, a meaningful analysis was not possible due to the lack of: (a) sufficient data on fuel consumption; and (b) pre-defined consumption standards for vehicles and generators. Moreover:

(a) the Carlog System that is used in other missions to monitor fuel consumption of vehicles had not been implemented by MINUSTAH; and (b) the Fuel Fraud and Loss Prevention Unit established by MINUSTAH to analyze fuel consumption data to detect possible irregularities was not effective due to the lack of reliable data as mentioned above.

26. The failure to monitor fuel vehicle and generator fuel consumption was of concern particularly as a review of 31 returns submitted by six contingents to the Fuel Unit identified numerous errors in the records of fuel consumed by those contingents. However, this was resolved by the use of MEFAS after the establishment of the turnkey contract and the implementation in September 2012 of the eFuel Management System (eFMS), which facilitated the compilation of fuel consumption. Contingents were required to submit daily returns to the Fuel Unit through the eFMS system. Information from the eFMS together with the MEFAS was intended to allow meaningful compilation of fuel consumption for effective monitoring and identification of irregularities, if any.

(5) MINUSTAH should implement a system that: compiles data on fuel consumed per asset; regularly analyzes fuel consumption per asset against predetermined norms to detect unusual consumption patterns; and undertakes appropriate follow-up actions and investigations.

MINUSTAH accepted recommendation 5 and stated that reports for fuel monitoring and analysis of abnormal consumption were available from the contractor database system on a monthly basis or upon request. The contractor had provided reports for the months of January and February 2013 which the Transport Section would use as a basis for estimation of over consumption. Recommendation 5 remains open pending receipt of evidence that fuel consumption is regularly monitored against acceptable norms, with exceptions followed up and acted upon.

Recommendations to enhance the operation of fuel dispensing sites were not followed-up

27. The Fuel Unit planned to conduct three inspections per year of fuel dispensing sites to ensure that: fuel received was of the expected quality; equipment was in good condition; safeguards were in place to minimize environmental and safety risks; and there were adequate controls over accounting for receipt and issuances.

28. Only 77 of 183 inspections planned during the audit period were conducted. While this was attributed to the lack of capacity in the Unit, the Mission recognized that additional resources would not be made available, and therefore had a system of targeting inspections to those sites that had submitted erroneous fuel returns, or where there had been issues that needed to be followed-up on.

29. A review of 10 inspection reports showed that inspections were instrumental in pointing out significant issues such as excessive oil spillage, lack of standardized fuel equipment, inadequate fuel calibration equipment and poor records management. Recommendations were made to address the issues identified, but there was no system to track whether corrective action was taken.

(6) MINUSTAH should track all recommendations made during inspections and follow-up until satisfactorily implemented.

MINUSTAH accepted recommendation 6 and stated that a register had been established in March 2013 to track the implementation of recommendations arising from fuel dispensing site inspections. Based on action taken by MINUSTAH, recommendation 6 has been closed.

Duty-free fuel procured by the contractor was not adequately tracked

30. Fuel procured by contractors for the sole use of MINUSTAH was exempt from customs duties and charges. MINUSTAH was responsible for implementing appropriate mechanisms to ensure that all fuel imported into the country duty-free by the contractor was used for the intended purpose.

31. From 1 July 2011 to 30 September 2012, eleven franchises were issued and approved by the Government totaling \$37 million. However, MINUSTAH had not implemented a process to periodically reconcile the issued franchise quantities against the quantities actually received by MINUSTAH. Without periodic independent verification and reconciliation, there was a risk that fuel brought into Haiti duty-free for the Mission may not have been used for the intended purpose.

(7) MINUSTAH should establish a mechanism to ensure that fuel procured duty-free by the contractor for its sole consumption is not used for unintended purposes.

MINUSTAH accepted recommendation 7 and stated that from March 2013, a stock control was carried out, franchise by franchise, and in accordance with the revised draft SOPs. Based on action taken by MINUSTAH, recommendation 7 has been closed.

IV. ACKNOWLEDGEMENT

32. OIOS wishes to express its appreciation to the Management and staff of MINUSTAH for the assistance and cooperation extended to the auditors during this assignment.



Mr. David Kanja, Assistant Secretary-General
Office of Internal Oversight Services

STATUS OF AUDIT RECOMMENDATIONS

Audit of fuel management in MINUSTAH

Recom. no.	Recommendation	Critical ¹ / important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
1	MINUSTAH should, in consultation with the Procurement Division, ensure that the United Nations is adequately safeguarded against possible claims due to the inability of MINUSTAH to provide land to the contractor as stipulated in the turnkey fuel contract.	Important	O	Receipt of confirmation that adequate measures are in place to safeguard the United Nations against possible claims from its fuel contractor.	31 March 2013
2	MINUSTAH should: (1) conduct an assessment of contingent-owned fuel carrying equipment to identify surplus or redundant equipment following the establishment of the turnkey fuel contract; and (2) initiate action in coordination with the Departments of Peacekeeping Operations and Field Support to repatriate redundant or surplus equipment.	Important	O	Receipt of evidence that action had been taken to repatriate the redundant equipment.	30 April 2013
3	MINUSTAH should reduce contingent fuel holdings to mitigate against the risk of loss to the Mission following the establishment of the turnkey fuel contract.	Important	O	Receipt of evidence that fuel stock levels held by contingents has been reduced to operational levels.	30 April 2013
4	MINUSTAH should ensure that standard operating procedures on fuel management are reviewed and updated to include the	Important	O	Receipt of a copy of the approved revised SOP to guide staff in managing fuel activities under the turnkey fuel contract.	25 March 2013

1 Critical recommendations address significant and/or pervasive deficiency or weakness in governance, risk management or internal control processes, such that reasonable assurance cannot be provided regarding the achievement of control and/or business objectives under review.

2 Important recommendations address important deficiencies or weaknesses in governance, risk management or internal control processes, such that reasonable assurance may be at risk regarding the achievement of control and/or business objectives under review.

3 C = closed, O = open

4 Date provided by MINUSTAH in response to recommendations.

Recom. no.	Recommendation	Critical ¹ / important ²	C/ O ³	Actions needed to close recommendation	Implementation date ⁴
	revised work flow process and procedures that are relevant to effectively managing a turnkey fuel contract.				
5	MINUSTAH should implement a system to compile data on fuel consumed per asset, and regularly analyze it against predetermined fuel consumption rates to detect unusual consumption patterns, follow-up on exceptions and decide actions to be taken, including further investigation, if necessary.	Important	O	Receipt of evidence that fuel consumption is regularly monitored against acceptable norms, with exceptions followed up and acted upon.	30 March 2013
6	MINUSTAH should track all recommendations made during inspections and follow-up until satisfactorily implemented.	Important	C	Action taken.	Implemented
7	MINUSTAH should establish a mechanism to ensure that fuel procured duty-free by the contractor for its sole consumption is not used for unintended purposes.	Important	C	Action taken.	Implemented